

25X1A

ORIG: [REDACTED]  
UNIT: CD/OSA  
EXT: 6986  
DATE: 15 JUL 64

CLASSIFIED MESSAGE

SECRET

ROUTING			
1	CD/OSA	9	
2	AD/OSA	10	
3	D/TECH	11	
4	MD	12	
5	RB	13	
6		14	
7		15	
8		16	
PRIORITY	DEFERRED	PRIORITY	
	X ROUTINE	OPERATIONAL IMMEDIATE	

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TO: [REDACTED]  
FROM: DIRECTOR  
CONF:  
INFO: OSA 1-15  
          *inf*

25X1A TO [REDACTED] INFO [REDACTED] CITE [REDACTED] 16571  
IDEALIST 0599

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ATTN: [REDACTED]

1. YOUR PRICE ANALYSIS SUBMITTED ON 24 JUNE 64 FOR 6 HR 73 B CONFIGURATIONS BEARS THE FOLLOWING:

"DOES NOT INCLUDE COMPUTER TIME OF LENS GLASS MELT ANALYSIS"

THIS EXCLUSION WAS NOT NOTED IN PRIOR QUOTATIONS.

2. BEFORE CONTRACT NO. LG-5020 CAN BE DEFINITIZED ON A FIXED PRICE BASIS AT [REDACTED] PER CAMERA, IT IS NECESSARY TO KNOW IF THIS COST WAS INCLUDED IN YOUR P.O. TO [REDACTED] AS FINALLY NEGOTIATED ON 24 JUNE 64. IF NOT, WHAT IS THE COST AND HOW DO YOU PROPOSE TO HANDLE CONTRACT COVERAGE?

END OF MESSAGE

*charge in cost of lens  
due to computer time  
& retooling by  
lens mfg. 1000 per  
camera*

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CH/CD/OSA

COORDINATING OFFICERS

SECRET

RELEASING OFFICER

GROUP 1  
Excluded from automatic  
downgrading and  
declassification

AUTHENTICATING OFFICER

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19 June 1964

SUBJECT: Advisory Report on Review of Proposal No. 1699  
Hycon Mfg. Company  
Monrovia, California

TO: Contracting Office

REF: Audit Liaison Request No. 1270, dated 4 May 1964

1. In compliance with the referenced request, a review was performed of cost data contained in the revised proposal dated and received on 17 June 1964. The review consisted of an examination of supporting documentation to the revised proposal, and increased hours and costs on the preceding contract GH-5710. (The final costs and price were negotiated on 25 May 1964 for contract GH-5710.) The preceding contract was for three HR 73B Configuration plus spare, and this proposal is for six HR 73B Configuration. An attachment to this proposal indicates additional material costs for a different type lens and related housing and change in containers in the net amount of \$16,660. There is also an additional material cost for a new type carriage in the amount of \$2,010. The auditor was advised that these are the only changes from the prior three units.

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2. The results of the review are summarized below. Details by elements of cost are presented in Schedule 1, and the auditors comments and recommendations are contained in the following paragraphs.

Cost  
Proposal    Questioned    Auditor

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Total costs

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Profit

Price

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Total costs

25X1A

Profit

Price

### 3. Direct Labor Hours

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a. The contractor proposes total hours of [ ] which consists of following categories.

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Shop -

Shop and assembly labor  
Inspection

Engineering -

Project engineer

System test

Total

b. On the prior job for 3 units, the contractor incurred a total of 9,400 hours of which approximately 7,400 were engineering and approximately 2,000 were shop-type hours. The engineering hours on this job should be lower, since certain of the preliminary work on the prior job is applicable also to this effort. However, it appears that the shop-type hours proposed for this job are overstated by approximately 2,000 hours. In addition, the contractor has made no provision for possible learning.

c. The auditor has reduced the shop-type direct labor hours proposed from 16,170 to 14,670, or by 1,500 hours.

#### 4. Direct Labor Rates

a. Direct labor rates proposed are as follows:

Shop -

Shop and assembly labor  
Inspection

Engineering -

Project Engineer (specific individual)  
System test



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b. A review of the actual rates for Special Projects Sept. 31 by categories as of 15 June 1964 indicates the following:

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Shop -

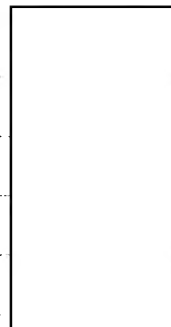
Shop and assembly labor (average)

Inspection (average)

Engineering -

Project Engineer (specific individual)

System test



The auditor has used these latter rates for the computations shown in the report.

### 5. Overhead Rate.

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a. The contractor has increased its proposed rate from  shown in the initial proposal dated 4 April 1964, to  of direct labor costs for this revised proposal. (The auditor was informed that this increase was based primarily upon the 8% per cent rate for the month of May.) The rates currently experienced in Special Projects Sept. 31 for this fiscal period starting 1 February 1964 are as follows:

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12/16/99

Month      Year to Date

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February  
March  
April  
May

--

b. The auditor made a selective review of May overhead expenses to determine the cause of the unusual increase in rate. These items are as follows:

(1) The month of May included a holiday, which has the double effect of increasing overhead expenses and decreasing the labor dollar base.

(2) Purchases of office supplies for February, March, and April averaged \$350 per month; but in May the purchases totaled \$2,700.

(3) The account, Outside Services, showed a charge for architects' fees related to a "one story technical building, Bldg. 'L'" in the amount of \$1,370.

(4) Charges originating in two engineering departments in the main plant were made to Special Projects Dept. 31 overhead in May in the total amount of \$2,327. Copies of these Authority

(5)

Hyman  
#1699

Note → for Expenditure, Nos. 9500-90 and 9501-44 are attached for your review.

c. The first three items in paragraph b above appear to be nonrecurring types of items (except holidays, which will recur in July, September, November, and December 1964). Item b(4) appears to be questionable as to its applicability to the Special Projects Dept. 31, in view of the security aspects and the methods currently followed by Special Projects Dept. 31 in purchasing parts and raw materials.

d. Based upon the above, it is the opinion of the auditor that the overhead rate for this proposal should not exceed  of direct labor costs.

## 6. Material Costs.

a. The total amount of material costs proposed for six units, \$233,748, appears to be excessive when related to the final total material costs incurred (and negotiated in the final price) on Contract GH-5710 for three units, (spares not included). Comparative data is shown below.



<u>Prior Job</u>	<u>This Proposal</u>
<u>3 Units</u> <u>6 Units</u>	<u>6 Units</u>

Final total material costs

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Purchases from sub-  
contractorsPurchases of raw materials,  
misc. small parts, etc.Total costs before  
changes and new itemsNet increase due to change  
in loss, etc.

New item - soft carriage

Overstatement of costs prop

b. As an additional test of the accuracy of material costs proposed, Schedule 2 and Explanatory notes presents a comparison of material costs by categories between those recorded on the prior job and those contained in a priced bill of materials applicable to this proposal.

c. The contractor has not yet concurred with the amount of overstatement shown above,  This raises an interesting point of discussion.

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25X1 If the costs proposed, before changes and new items, of  (P 6a above) are correct, (which is not substantiated by the prior bill of materials) then some costs applicable to the prior job, an incentive-type contract, were recorded against other work of the contractor. If the costs recorded and negotiated on the prior contract are correct, then the costs proposed for this contract (SFP) are overstated.

### 7. Material Handling Rate.

25X1A a. The contractor proposes a rate of  of material costs for this item. The current trend is shown below.

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<u>Month</u>	<u>Year to Date</u>
February	<input type="text"/>
March	
April	
May	

25X1A b. In view of the above, the auditor recommends the use of an  rate for this proposal.

c. It should be noted that a similar decreasing trend was experienced in the prior fiscal year.

9. G & A Ratio

Month Year to Date

February  
March  
April  
May

b. The auditor recommends the use of a  GFA rate for this proposal.

10. Profit. The contractor proposes a profit rate of  for this work. In paragraph 2 above, the auditor presents an alternate computation using a profit rate of  applied to adjusted costs.

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6/19/64

# 11. Discussion With Authorized Contractor Personnel.

Because of the short time between receipt of the revised proposal and the date set for negotiation, the auditor's recommendations presented in Schedule 1 to this report were not discussed in detail with contractor personnel. The direct labor rates used by the auditor were coordinated with [redacted]

[redacted] and he was advised of the apparent overstatement of proposed shop direct labor hours; the amount of material costs questioned; and the overhead, material handling, and G&A rates used by the auditor.

[redacted]

PROJECT AUDITOR

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EXPLANATORY NOTESSCHEDULE 2  
(Page 2 of 2)

Note 1 - For purposes of this presentation, the auditor has reclassified the costs of mirrors from No. 05 to No. 14 on the prior job, since the costs of mirrors on the current proposal are in No. 14.

Note 2 - a. The contractor's representative stated that the priced bill of materials did not include the costs of a few items of raw material which have a low dollar value. This would account for the difference of approximately \$5,000.  
b. This priced bill of materials contains the increased costs applicable to the change in lens, etc., and the new item - soft carriage.

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Hycon  
4/10/99

6/17/64